of the additional costs incurred, such as direct labor and engineering, which are incurred when changing out the plug-in circuit cards to go from existing integrated to a non integrated configuration. Rather than overstating forward-looking costs for the loop, the Missouri PSC's assumption of integrated DLC understated such costs.

The MPSC Set Appropriate Dark Fiber Costs

66. AT&T alleges an "improper allocation of dark fiber costs to the loop rates."[9] The CLECs allege that the UNE loop rates improperly include dark fiber, and the Staff did not fix the problem. They also state that the fiber fill factor is built into the conduit factor which allows SWBT to recover the conduit investment associated with unused fiber. These "problems" were clearly addressed and resolved in the Staff's Costing and Pricing Report and in SWBT's dark fiber cost study, which the Staff modified. Staff discusses the issue concerning the fiber fill factor, which SWBT proposed at ** **. See Final Arbitration Order Attachment C at 78. Staff recommended a fiber fill factor of 95%. The 5% spare was to account for broken fibers that could never be used. Staff addresses the "problem" with the conduit factor at page 18 of The Costing and Pricing Report, which states, "A review of the dark fiber cost studies indicated that no conduit costs are being recovered though dark fiber so the issue of double recovery does not apply." Staff made the decision to recover these costs in one place.

67. AT&T's complaint is that the spare capacity for fiber and conduit are recovered in

[9] See Baranowksi Decl. ¶ 45; See also Missouri DOJ Evaluation at 16. (In its Evaluation, DOJ suggested, without independent analysis, that other "possible errors that may have affected Missouri loop prices include . . . allocation of all conduit costs to active, rather than dark, fiber.") Again, the following discussion obviates this concern.

the loop study. The Staff's decision in this matter was appropriate because allocating spare capacity and conduit to dark fiber would only compensate SWBT for these costs if the CLECs were actually purchasing dark fiber. Dark fiber is not allocated and held in waiting for the CLECs to purchase, it is taken from the current inventory in the SWBT network. As of this date, no CLEC in Missouri has purchased dark fiber.

VI. DEPRECIATION

68. With respect to depreciation, SWBT proposed "economic depreciation rates" as required in 47 C.F.R. § 51.505(b)(3), rather than using dated depreciation rates. The MPSC's economic depreciation rates represent the true economic value as required by the FCC.[10] The CLECs have confused the concept of "economic depreciation."[11] All parties agree that TELRIC studies should measure the loss in economic value of an asset over time. CLECs state that prescribed depreciation is the proper measure of economic depreciation over projected or economic depreciation (CLECs calls this "financial accounting" depreciation), which is what SBC largely relied on -- as the MPSC Staff endorsed this as being the measure of economic depreciation

69. CLECs claim that prescribed lives are objectively designed for regulatory purposes. Prescribed lives have always been part of a political decision affecting local rates. Prescribed lives are not objective. Prescribed lives were considered and rejected by the MPSC Staff for a number of reasons. According to the Staff

[10] See Local Competition Order ¶ 703 ("We conclude that an appropriate calculation of TELRIC will include a depreciation rate that reflects the true changes in economic value of an asset and a cost of capital that appropriately reflects the risks incurred by an investor.")

[11] In its Evaluation, DOJ questioned the MPSC's setting of depreciation rates. See Missouri DOJ Evaluation.

report "the key distinction between setting depreciation rates for TELRIC purposes from depreciation rates for rate making under rate-of-return is in the selection of the life parameter of the depreciation rate equation. Economic obsolescence has overtaken physical deterioration as the primary cause of loss of value and retirements." See Final Arbitration Order, Attachment C at 99 (emphasis added).

70. The MPSC Staff undertook a careful and lengthy review of the depreciation lives proposed by SWBT and AT&T/MCI. The Costing and Pricing Report dedicated 17 pages to discussing the Staff's careful review and decisions to adopt SWBT's depreciation lives, with some modifications. The Staff review included: 1) a comparison by USOA account and company composite to depreciation rates and parameters currently prescribed by the MPSC and the FCC; 2) benchmarking against implied depreciation rates calculated via financial information obtained over the Internet and through other sources available to the Commission; and 3) a comparison to available information on an individual account basis. This endeavor involved both public document searches and HC information obtained by Staff's investigation.

71. The benchmarking exercise conducted by the Staff included depreciation data from AT&T, which was supplied to the Staff. The benchmarking findings indicated that: "[w]hile the implied rates indicate a large range, SWBT TELRIC depreciation rate parameter proposals put SWBT sixth from the lowest in the pool of 19 benchmarked companies. Staff's modifications reduce SWBT's composite rate even further, into or below those implied rates for the IXC group. This is the

most significant contributing factor to Staff's belief that SWBT's proposed depreciation parameters as modified by Staff are reasonable." See Final Arbitration Order, Attachment C at 104.

72. Another important point concerning depreciation lives relates to the lives that AT&T uses. AT&T, which presumably considers itself an efficient provider, used the very depreciation lives at issue here in its own depreciation calculations. AT&T's depreciation lives validate what SWBT proposed, and even were used by the Staff as an additional justification to support SWBT's proposal. The following chart compares AT&T's lives to what SWBT proposed in Case No. TO-97-40. Additional AT&T depreciation lives are shown on DMB-4, attached to the Staff's Costing and Pricing Report.

	AT&T	UNE Missouri	Intrastate Missouri	Interstate Missouri	FCC Permitted Range
ESS Digital	** **	** **	17.5	16.0	16.0 - 18.0
Circuit Digital	** **	** **	15.0	11.0	11.0 - 13.0
Underground Metallic Cable	** **	** **	30.0	25.0	25.0 - 30.0
Buried Metallic Cable	** **	** **	28.0	20.0	20.0 - 26.0

73. AT&T contends that SWBT relied on projection lives "it generally uses for financial reporting purposes." However, the projection lives used for financial reporting purposes are economic lives. These financial reporting depreciation costs are the very same costs that SBC, other ILECs, CLECs, IXCs, and other firms rely upon in making sound business decisions. In the past, various firms have written-off these very depreciation costs from their financial reports because of the inordinately long lives prescribed by various regulatory orders. These costs,

as with any competitive firm, have a true economic impact on SWBT and its shareholders. Write-offs such as these deter capital investment in a firm because investors obviously expect that they will recover their investments in a firm. The FCC and state prescribed depreciation lives may allow for some forward-looking capital recovery as CLECs suggest. However they do not allow complete recovery of capital costs on a forward-looking basis from an economic perspective. The FCC recognized this in the Local Competition Order (¶ 703), which states, "(w)e conclude that an appropriate calculation of TELRIC will include a depreciation rate that reflects the true changes in economic value of an asset and a cost of capital that appropriately reflects the risks incurred by the investor."[12]

74. AT&T also states that SWBT's distribution fill factor and maintenance factors are inconsistent with the use of the economic depreciation lives ordered by the MPSC. While this argument may sound appealing on a basic level, actually it demonstrates a poor understanding of how SWBT's maintenance factor is developed and how the fill factor represents a forward-looking environment.

75. The depreciation life of the plant and the fill factor are unrelated. Distribution plant is placed for ultimate demand, which is the total forecasted growth of an area. Whether that growth is realized in 2 years or 20 years, the total utilization of distribution cable averages out to be the same as what SWBT has projected for its loop studies. In my 20 plus years of conducting cost studies for loop plant I have

[12] For additional information concerning SWBTs position concerning economic lives for UNEs rather than prescribed lives, see Joint Reply Comments (SBC Communications Inc., Bell Atlantic, BellSouth Corporation, GTE Service Corporation and its affiliated domestic telephone operating companies), 1998 Biennial Regulatory Review – Review of Depreciation Requirements For Incumbent Local Exchange Carriers, et. al, CC Docket Nos. 98-137; 99-117; ASD File No. 98-26, § II.B (FCC filed Apr. 28, 2000).

not seen a distribution fill factor in Missouri above 40%.

76. As for the maintenance factor, there is no linkage between embedded depreciation lives and the maintenance expense. The maintenance factor is calculated by dividing total maintenance expense for a particular plant account by the total investment for that same account, adjusted with a current cost to book cost ratio (CC/BC). The CC/BC factor has the effect of increasing the numerator, which in turn makes the factor smaller. When this smaller factor is then applied to a TELRIC investment, which is lower than the actual investment, it has the effect of creating a maintenance expense that is forward looking and in no way reflects embedded maintenance expense.

VII. COMMON COSTS

77. Common Costs were identified using SWBT's most recent historical costs (1995 data at the time studies were produced), to develop a ratio as a basis for projecting its forward-looking common costs. The historical costs were adjusted to exclude retail costs and a portion of executive, planning, and general and administrative costs. These costs represent costs incurred by SWBT's operations as a whole. That is, they are common to all services and elements, excluding those costs not attributable to the provision of retail services, such as billing and marketing costs. This fixed allocation method represents a percentage markup over the directly attributable forward-looking costs.[13]

78. The key to the *common factor* is the relationship of *common costs* to the TELRIC of the firm (i.e., *total expenses*). These *total expenses* include operating expenses,

[13] SWBT's development of a common cost allocation method is in compliance with the FCC's Forward-Looking common cost principles enunciated in the Local Competition Order, ¶¶ 694-98.

capital-related costs of return on capital, depreciation and income tax expenses, but exclude those costs attributed to common. This relationship of *common cost* to *total expenses* is critical to understanding not only how the factor is developed, but also to how the factor is applied. In short, *common costs* represent the numerator, and *total expenses* (excluding common costs) represent the denominator. The resulting factor (*common cost / total expenses = common factor*) is then applied to the forward-looking TELRIC cost of the UNE to provide the basis for the forward-looking UNE price.

79. AT&T and WorldCom state that Missouri's common cost factor is too high because it does not consider merger savings and does not use revenues as the denominator in the calculation of the factor. Both allegations are unfounded.[14] The calculation of the common cost factor is total common expenses over total expenses less common expenses. This factor is then applied to the TELRIC cost to determine the UNE price. Merger savings would not only affect the numerator, but also the denominator in this calculation. The key question is whether merger effects will increase or decrease the percentage of total forward-looking expense that will be common vis a vis attributable. SBC does not believe there is sufficient evidence with which to speculate that this percentage will either increase or decrease due to mergers. To the extent that changes do occur, these will be reflected in updated studies.

[14] The DOJ, in its Evaluation Report of SWBT's first Missouri 271 Application, expresses some concern about SBC's common cost allocator because it is higher than the allocator used in Texas and Kansas. See Missouri DOJ Evaluation at 17-18. The DOJ fails, however, to otherwise indicate why the Missouri allocator is improper for Missouri – or compare the Missouri allocator to other states such as Illinois, California, Ohio, Connecticut, among others.

80. Merger cost savings potentially affect all parts of the business. Some administrative functions may be centralized, purchasing decisions may be more cost effective and a variety of operational processes may be made more efficient. It is not clear that the effect of all costs declining would be that common costs would decline more than overall costs. AT&T has provided no evidence that common costs will decline and hence reduce the common cost factor for Missouri.

81. AT&T compares Missouri's common cost factor to those of other states and contends that a comparison of Missouri's common cost factor to those in other states confirms that SWBT's common cost factor is too high. Common cost factors for all the SBC 13 states range from a low of 10% in Kansas to a high of ** **% in Illinois. Specifically, California's common cost factor is ** ** Oklahoma is at 18.64%, Ohio is at ** ** and Connecticut is ** **.

82. It should be noted that the MPSC Staff reviewed the Missouri Common Cost factor as part of the 16-week review of SWBT's cost studies. The Staff report states, "Staff has no specific concerns or proposed modifications to this study, other than Staff's proposed modifications affecting all studies (Cost of Money, Depreciation, etc.)." See Final Arbitration Order, Attachment C at 125. These other modifications did not affect the Common Cost Factor Study, and SWBT was allowed to continue to use 16.47% as its common cost factor in Missouri.

83. CLECs also contend that there is an error in the way SWBT calculates its common costs because the denominator should be total revenues rather than total expenses. Their reasoning for this is that the TELRIC contains a "profit,"

resulting in a mismatch due to the denominator's failure to contain a cost of money component.

84. The denominator SWBT used was total expenses for the state of Missouri, which includes the costs for depreciation, income taxes and the debt portion of the cost of money. Because the equity portion of the cost of money is excluded in total expenses, there is a *slight* mismatch. However, the CLECs' proposed remedy of using total revenues as the denominator would severely understate the common cost factor, egregiously violating TELRIC. Using total revenues as the denominator would be entirely inappropriate because total revenues also recover the cost of money and income tax requirements associated with assets attributable to marketing and services, common operations and network operations general supervision. Using total revenues would understate the factor and the total common costs computed applying the factor to TELRIC. The slight mismatch is further mitigated by the fact that the common cost factor is multiplied by the attributable TELRIC cost which is generally significantly lower than current cost levels, thus producing forward-looking common cost levels generally lower than today's common cost levels.

85. Mr. Baranowski argues that any merger savings would not affect the numerator and denominator equally, hence my argument that common costs have not declined significantly is incorrect. It is interesting that he says this because all of his complaints regarding SWBT's TELRIC studies, if recognized and corrected, would make the denominator, which is total expenses, decrease significantly. Increasing switch discounts, increased fill factors, increases in pole and conduit

sharing, etc, would all have the effect of decreasing the denominator, which would increase the common cost factor.

86. On page 15, Mr. Baranowski cites the SBC Annual report in support of his contention that planned cost savings are not incorporated into the common cost factor. It is actually SBC's annual report, not SWBT's, and thus the savings are related to SBC as a total company. The savings were also planned at the SBC subsidiaries, not just SWBT.

87. Regarding Mr. Baranowski's Exhibit 2, I can understand his calculations through column 6, however, I cannot follow how he calculates column 7. It appears that he performed some sort of linear regression analysis on data from 17 different companies, after making an arbitrary 20% reduction in actual overhead expenses. He provides no reasons for this reduction.

88. I have verified the ARMIS numbers used for the SBC subsidiaries in Mr. Baranowski's Exhibit 2 and all of them are accurate except for the SBC West Corporate Expenses amount in Column 2. He shows $1,086,295 and the ARMIS report shows $1,005,160. Mr. Baranowski's incorrect number is 81 million dollars higher. Ironically, f he had used the correct number, his factor would have been even lower.

VIII. ACES, BUILDING FACTOR AND POWER FACTOR

89. CLECs state that the ACES factors for power, buildings, engineering, etc "inflates" the UNE rates and violates TELRIC principles. The derivation of these factors starts with historical information, but adjustments are made to the factors

to make them forward looking. For example, the power factor is calculated as power investment, over booked investment, multiplied by a current cost to booked cost ratio (CC/BC). This CC/BC ratio converts the investment from historical to current. In this manner, a different, and in most cases lower, factor results.

90. The Staff disagreed with SWBT's methodology for calculating the building factor and made adjustments to the factor calculation. Id. Attachment C at 80. The Staff also recommended removing the power factor from the BRI, DS-1 and PRI studies. Id. Attachment C at 10.

IX LOOP CONDITIONING

91. Mr. Baranowski complains that the current rates for loop conditioning in Missouri are not TELRIC compliant. As described in the Reply Affidavit of Thomas Hughes, the interim loop conditioning rates in the M2A were set by the MPSC at $0 and are subject to a proceeding established by the MPSC to set permanent rates.

X THE FCC SYNTHESIS MODEL SHOULD NOT BE USED TO ESTABLISH ABSOLUTE RATE RELATIONSHIPS

92. AT&T, WorldCom and Z-Tel have presented cost results from the FCC's Universal Service Fund (USF) model ("Synthesis Model") as relationship proxies for SWBT's actual, forward-looking costs and for validating UNE rates. As Mr. Makarewicz fully explains in his Reply Affidavit, this is an inappropriate use of the Synthesis Model.

93. A primary limitation of the federal Synthesis Model is its application of nationwide default values for investment-to-expense ratios, capital cost and operating expense inputs. These inputs are the drivers in calculating the actual forward-looking costs that a provider expects to incur in provisioning its services. In reality, these important cost inputs vary significantly from state to state, with the Synthesis Model's nationwide-averaged values greatly diverging from the values used in SWBT's TELRIC studies. The result of applying nationwide investment ratios, capital cost and operating expense input values causes Synthesis Model costs to misrepresent actual results. SWBT conducted an analysis to demonstrate the magnitude of difference between Synthesis Model results and SWBT's TELRIC results exclusively attributable to variations in inputs. (See Smith Attachment A). This analysis compares loop, port and usage investments and monthly recurring costs[15] developed using the Synthesis Model and using SWBT's originally-filed TELRIC studies for Arkansas, Kansas, Missouri, Oklahoma and Texas. It is correct to use SWBT's originally-filed TELRICs since these results are closest to SWBT's actual, forward-looking costs. SWBT's original TELRIC results do not reflect mandated cost input changes.

94. The analysis seeks to answer key questions concerning Synthesis Model results. First, does the Synthesis Model underestimate loop and switching costs? Table 1 in Smith Attachment A shows the loop and switching monthly recurring cost results from the Synthesis Model and SWBT's original TELRIC cost studies. The

[15] SBC applies Annual Charge Factors (ACF) to investment to calculate the cost associated with capital investment. ACFs take into consideration depreciation, cost of money, income tax, and maintenance. The result is then divided by 12 to get to a monthly cost.

Synthesis Model understates the loop costs by at least 34% in each of the five states. The switching cost is understated by 76% in Texas to 80% in Arkansas.

95. Table 2 in Smith Attachment A illustrates that the state-to-state cost relationships in the Synthesis Model are not valid. Each state's cost is compared to Texas' cost. The relationship between Missouri's loop cost and Texas' is accurate; however, the relationship between Kansas' loop cost and Texas' is underestimated by 28%. The switching cost relationships are underestimated by 10% for Oklahoma to 23% for Arkansas.

96. Another reason the cost and cost-relationship results from the Synthesis Model are incorrect is the understatement of investment by the model. SWBT's analysis of the Synthesis Model investment results are shown in Table 3 of Smith Attachment A. The analysis shows that the model systematically understates the actual investment for each of SWBT's five states. The loop investment results from the Synthesis Model understate the true investments by a range of 10% for Missouri to 26% for Arkansas. The switching investment for each state is underestimated by at least 49% in each state.

97. SWBT also analyzed the cost and investment relationships. Table 4 in Smith Attachment A illustrates that the state-to-state investment relationships in the Synthesis Model are not valid. The Synthesis Model does not reflect the true investment relationships among the states. Comparing the investment results for each SWBT state to Texas, the Synthesis Model underestimates the relationships by 4% for Oklahoma to 26% for Arkansas. The results for Missouri compared to Texas are overestimated by 4%.

98. The Synthesis Model should not be relied upon to approximate SWBT's costs or to gauge the reasonableness of SWBT's UNE rates. The costs the company actually expects to incur, with a forward-looking network deploying efficient technologies, must underlie UNE prices.

99. TELRIC results vary across states, and there are critical state-specific cost differences embodied in the UNE rates that are not accounted for by the Synthesis Model because of its reliance on nationwide inputs.

XI CONCLUSION

100. In summary, SWBT's original cost models and cost studies for Missouri, with some revisions, are compliant with the Act and the FCC's TELRIC methodology and principles. They, along with evidence presented by other parties of what are the appropriate TELRIC based costs, were appropriately relied upon by the MPSC in setting prices for interconnection and access to unbundled network elements. The increment that forms the basis for SWBT's TELRIC studies is the entire quantity of the network element provided. All of the costs associated with providing the element are included in the incremental cost. The TELRIC costs are only forward-looking, incremental costs and are based on the incumbent LEC's existing wire center locations and most efficient technology, as required by the FCC.

I state under penalty of perjury that the foregoing is true and correct.
Executed on

Barbara A. Smith

STATE OF MISSOURI)
COUNTY OF JEFFERSON)

CYNTHIA J. HOUSLEY
Notary Public – Notary Seal
State of Missouri
County of Jefferson
My Commission Expires Feb 21, 2005

Subscribed and sworn to before me on this 28 day of September 2001.

Notary Public

A

B. Smith Reply Affidavit – Attachment A

REDACTED FOR PUBLIC INSPECTION

REDACTED FOR PUBLIC INSPECTION

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Joint Application by SBC Communications	)	
Inc., Southwestern Bell Telephone Company,	)	
and Southwestern Bell Communications	)	CC Docket No. 01-194
Services, Inc. d/b/a Southwestern Bell Long	)	
Distance for Provision of In-Region,	)	
InterLATA Services in Arkansas and Missouri	)	

AFFIDAVIT OF J. GARY SMITH & DAVID R. TEBEAU

TABLE OF CONTENTS
STATE OF COMPETITION AFFIDAVIT

J. Gary Smith & David R. Tebeau, of lawful age, being duly sworn, depose and state:

1. My name is J. Gary Smith. My title is Area Manager – Competitive Analysis for Southwestern Bell Telephone Company (SWBT). My business address is 311 S. Akard, Room 1840.02, Dallas Texas. I am the same J. Gary Smith who previously filed an affidavit in this proceeding, which provides my relevant experience and qualifications.
2. My name is David R. Tebeau. My title is Area Manager – Competitive Analysis for SWBT. My business address is 311 S. Akard, Room 1840.04, Dallas Texas. I am the same David R. Tebeau who previously filed an affidavit in this proceeding, which provides my relevant experience and qualifications.

PURPOSE OF AFFIDAVIT

3. The purpose of this affidavit is to respond to the comments of AT&T, Sprint Communications Company, Navigator Communications, WorldCom and the Missouri Office of Public Counsel ("OPC") regarding the existence of facilities-based competition in Arkansas and Missouri. While we do not address the legal requirements of Track A, both our original affidavits and this rebuttal conclusively establish that:
   - the local markets in Arkansas and Missouri are open to competition;
   - CLECs in both states are actively competing with SWBT for both business and residential customers;
   - CLECs in both states are serving subscribers entirely over their own facilities, over UNEs leased from SWBT, and via resale;
   - Competition is growing in all segments of the local market.

RESIDENTIAL COMPETITION

4. Various carriers complain that "there is no meaningful local competition for residential customers in either Arkansas or Missouri."[1] AT&T in particular claims that "SWBT's own data confirm that competitors have not yet been able significantly and irreversibly to enter the local residential market." Id. at 92. In fact, SWBT's data proves exactly the opposite.

5. First, no commenter contests the fact that CLECs provide facilities-based service to a substantial percentage of business customers in both Arkansas and Missouri. In August 2001 alone, the number of interconnection trunks provided by SWBT to facilities-based CLECs in Missouri totaled 116,233, and in Arkansas 23,888. E911 listings submitted by facilities-based CLECs totaled 152,167 in Missouri and 58,917 in Arkansas. UNE-P lines provided by facilities-based CLECs totaled 62,669 in Missouri and 7,898 in Arkansas. These volumes are significant, and should only be expected to grow with approval of SBC's Missouri 271 application.

6. All of these elements – interconnection trunks, UNE loops, UNE loop and port combinations – are available to CLECs choosing to provide service to the residential market, as well as the business market. Thus, regardless of the actual number of residential lines served by CLECs in either state, there can be no question that the market itself is open to residential competition.

[1] See Comments of AT&T Corp., CC Docket No. 01-194 at 1 (FCC filed Sept. 10, 2001) ("AT&T Comments).

7. Further, these carriers – and AT&T in particular – misrepresent the status of residential access lines served by CLECs in both states. First, AT&T attempts to minimize facilities-based residential CLEC competition in Arkansas and Missouri by tabulating CLEC facilities-based lines (as reflected in SWBT's E911 database) separately from UNE-P lines.[2] AT&T ignores the fact that both E-911 lines and UNE-P lines represent service provided by facilities-based carriers. As reported in our opening affidavits, as of the end of June, CLEC residential E911 facilities-based listings, together with UNE-P residential lines, total 8,974 in Arkansas (or 1.34% of the SWBT residential access line market in Arkansas) and 29,852 in Missouri (totaling 1.67% of SWBT's Missouri residential access lines market).

8. Updating these numbers for Arkansas from June through August, facilities-based residential lines in Arkansas increased from 8,974 to 10,992, a growth of 22.5%. Much of this growth is attributable to Navigator's increasing use of UNE-P. As of the end of August, Navigator served *** *** residential lines in Arkansas via UNE-P, an increase of *** ***% since June. See Table 1 below.

Table 1

Navigator Residential UNE-P growth from June 2001 to August 2001

June 2001	July 2001	August 2001	Growth June-August	% Growth June-August

[2] See AT&T Comments at 93.

9. Although the majority of these new UNE-P lines represent conversions of resold lines to UNE-P, Navigator also added new residential customers to facilities-based service provided via UNE-P in July and August. Attachment A to this affidavit provides detail on the new UNE-P residential accounts added by Navigator in July and August, exclusive of resale to UNE-P conversions.[3]

10. In addition, from April through June, Navigator added *** *** residential resold lines in Arkansas. To be sure, Navigator's residential resold line total decreased in July and August, but the decrease ***( )*** was approximately offset by the number of UNE-P conversions *** *** that Navigator completed during that time period, and therefore does not reflect any material decrease in the total number of residential lines served by Navigator. It is therefore clear that, even after Navigator told the Arkansas PSC in April that it intended to cease marketing facilities-based service to residential customers, Navigator continued to sign up new residential customers via *both* UNE-P and resale.

11. Facilities-based residential service in Missouri also has grown, increasing from 29,852 as of the end of June to 31,127 at the end of August, a growth of 4.3%. With this growth, at of the end of August, CLECs in Missouri served 1.75% of the total residential market on a facilities-basis.[4]

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[3] With the addition of these new UNE-P lines, Navigator currently provides more facilities-based service via UNE-P than it does via resale. Resale totals as of the end of August for Navigator equal *** *** lines, *** *** business and *** *** residential. See, AT&T Comments at 86, incorrectly observing that Navigator "is not a 'predominately' facilities-based carrier to any class of customer."

[4] SWBT served 1,738,500 residential lines at the end of August 2001. CLEC have 28,752 E911 listings and 2,375 residential UNE-Ps for a 1.75% share of the consumer market.

12. As discussed in our opening affidavits, E911 listings represent a very conservative method of estimating the number of facilities-based lines served by CLECs. Using an interconnection trunk to access line ratio of 2.75:1, the estimated number of CLEC facilities-based access lines as of the end of August totals 382,282 in Missouri and 73,590 in Arkansas.

13. Moreover, AT&T's analysis wholly ignores the substantial evidence of CLEC entry in the residential market via resale. As the Commission has recognized time and again, Congress provided for three distinct modes of entry in the local market. Even aside from the Commission's previous conclusion that resold service can count for purposes of Track A,[5] the simple fact is that the substantial number of residential lines resold by CLECs further demonstrates that the local market is open and that CLECs are actively competing with SWBT for residential customers in Arkansas.

14. Table 2 below demonstrates that considering all modes of competition, and using the very conservative E911 numbers to estimate access lines served by switch-based CLECs, at least 5.6% of the Arkansas residential access line market, and 3.6% of the Missouri market, is currently being served by CLECs.

Table 2
August 2001 – CLEC Residential Access Line Analysis

CLEC Market	Resold Residential Lines	E911 Residential Lines	UNE-P Residential Lines	TOTAL Residential Lines	% Residential Access Lines *
[redacted]	27,668	5,057	5,935	38,660	5.6%
[redacted]	33,282	28,752	2,375	64,409	3.6%

Based on SWBT's Arkansas 655,230 residential lines and Missouri's 1,738,500 residential lines

[5] Kansas/Oklahoma Order, at n. 101.

15. AT&T, Sprint and WorldCom fault SWBT for noting that WorldCom, Logix and McLeod appear in SWBT's databases as carriers providing facilities-based residential service to subscribers in Arkansas. Contrary to these claims, SWBT does not refer to these smaller carriers as Track A "fallbacks." Rather, the presence of residential E911 listings by facilities-based carriers -- both big and small -- demonstrates that the residential markets in Arkansas and Missouri are open to competition by carriers who chose to compete. As the Act requires, facilities-based residential service is being provided and can be provided by any CLEC choosing to compete in that market.

16. Similarly, commenters make much of the fact that Alltel and Navigator both have announced decisions to no longer offer service to residential subscribers in Arkansas, arguing that, without these carriers, SWBT cannot satisfy the FCC's requirement that there "be an actual competitive alternative to the BOC" in the state for which relief is sought. In fact, that requirement is quite clearly met in Arkansas as well as Missouri.

17. First, Alltel and Navigator continue to provide facilities-based service to residential subscribers in Arkansas in competition with SWBT today. The information provided by SWBT in Attachment A further demonstrates that Navigator is continuing to convert its resold service to UNE-P, and to add new UNE-P customers.

18. In addition Sage recently announced its intention to enter the local market for both business and residential service in Arkansas in October. As set out in the attached articles (Attachment B), on September 25, 2001, Sage was approved by the Arkansas PSC to provide local phone service in Arkansas. "Sage plans to rollout services for residential and small business subscribers in the Little Rock, Fort Smith and Pine Bluff areas beginning in October. The company will offer a Home Choice Plan to residential

customers which includes local telephone service, 60 free minutes of long distance and free Caller ID for only $24.90 a month." The fact that Sage will actively compete with SWBT is further seen in the comments of its President and CEO, Dennis M. Houlihan, who stated that, "by combining local and long distance services, our customers will find that their monthly savings are considerable." Mr. Houlihan speaks from experience. Table 3 below details the success that Sage has had winning residential (and business) customers – and serving those customers on a facilities-basis – in Texas.

*****Table 3*****
August 2001 – Sage Services

Sage Market	UNE-P Res. Lines	UNE-P Bus. Lines	Total Lines
Texas			

19. Even though carriers offer facilities-based service to residential subscribers in Arkansas, the fact remains that business plans change. Sage, Navigator and Alltel are all free to offer or to discontinue offering service to residential subscribers in Arkansas and elsewhere. Similarly, other carriers, including AT&T, WorldCom and Sprint are free to begin offering residential service in Arkansas when they determine that providing such service suits their business interests. The fact remains that the local market in Missouri and Arkansas – for both business and residential subscribers – remains open to accommodate the business interests of competitors.

20. Sprint complains about the methods by which SWBT estimates the number of access lines served by CLECs in Missouri and Arkansas. Citing to a confusing mish-mash of the comments filed by Global Crossing in the Kansas/Oklahoma 271 proceeding, the affidavit of J. Gary Smith in this proceeding, and the DOJ's comments in the Texas 271

proceeding, Sprint announces that "the mythology behind these methods needs to be recognized and rejected by the Commission." [6]

21. In fact, SWBT's methods of estimating the number of access lines served by CLECs are very clear and straightforward. SWBT presents numbers based on a 2.75:1 CLEC trunk-to-line ratio and on CLEC E911 listings. While SWBT believes the DOJ's recommended 1:1 ratio is unrealistically conservative, SWBT presents those numbers as well. All three of these methods demonstrate the existence of facilities-based competition for both business and residence access lines in Missouri and Arkansas. Further, based on SWBT's data, as of August 2001, Sprint itself has a trunk-to-line ratio of *** ***to 1 in Missouri.[7]

22. In this regard, Missouri Office of Public Counsel (OPC) Comments at 8 states that it "believes" CLEC market share in Missouri "is at best 5% state-wide on a combined business and residential bases and combined resale, facilities-based and pure facilities based method of competition." This conclusion contradicts the findings of a CLEC survey conducted by Missouri Public Service Commission ("MPSC") staff in August 2000, which determined that CLEC market coverage at that time was 12%.[8] Sprint's comment similarly is not supported by the data maintained by SWBT. See Table 4 below.

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[6] Sprint Comments at n.9.

[7] At the end of August Sprint has *** *** interconnection trunks and *** *** E911 listings in Missouri.

[8] See Order Regarding Recommendation On 271 Application Pursuant To the Telecommunications Act of 1996 and Approving the Missouri Interconnection Agreement (M2A) at 20, Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-Region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996, Case No. TO-99-227 (MO PSC filed Mar. 15, 2001) (App. C, Tab 98).

Table 4
CLEC Lines in SWBT's Arkansas and Missouri Service Areas as of August 2001

Interconnection Trunks 2.75:1 Ratio + UNE-P +Resale							
State	SWB Access Lines			CLEC Access Lines			Estimated Market Coverage
	Business	Residence	Total	Business	Residence	Total	
Missouri	834,113	1,738,500	**2,572,613**	373,255	96,048	**469,303**	15.4%
Arkansas	370,212	655,230	**1,025,442**	68,177	36,602	**104,779**	9.3%
E911 Lines + UNE-P + Resale							
State	SWB Access Lines			CLEC Access Lines			Estimated Market Coverage
	Business	Residence	Total	Business	Residence	Total	
Missouri	834,113	1,738,500	**2,572,613**	237,448	64,409	**301,857**	10.5%
Arkansas	370,212	655,230	**1,025,442**	59,344	38,660	**98,004**	8.7%
Interconnection Trunks 1:1 Ratio + UNE-P + Resale							
State	SWB Access Lines			CLEC Access Lines			Estimated Market Coverage
	Business	Residence	Total	Business	Residence	Total	
Missouri	834,113	1,738,500	**2,572,613**	208,296	57,617	**265,913**	9.4%
Arkansas	370,212	655,230	**1,025,442**	28,281	34,694	**62,975**	5.8%

TEXAS / OKLAHOMA / KANSAS COMPARRISON

23. Referring to the Report to the 77th Texas Legislature: Scope of Competition in Telecommunications Market of Texas, (Jan. 11, 2001), issued by the Texas Commission, AT&T appears to contend that SBC's 271 entry in Texas has led to a decline in local competition.[9] That is untrue. In fact, SBC's 271 entry in Texas has brought increased competition not just to the long distance market, but to the local market as well; and the same is true in Kansas and Oklahoma.

24. Since June 2000, based on CLEC interconnection trunks, SWBT estimates growth of 1,213,415 new facilities-based lines in Texas, an increase of 69%. Lines served by CLECs in Texas, including resale, has likewise increased by over 51%, while UNE Loop/Port combinations alone have jumped by over 218%. See Table 5 below.

[9] See AT&T Comments at 108.

Table 5
Growth in Competitive Indicators for Texas 271 Application
June 2000 to August 2001

Growth in Competitive Indicators for Texas			
Competition Indicators	Jun-00	Aug-01	% Growth
Facilities Based (FB) Lines Captured by FB CLECs	1,736,175	2,949,590	69%
Total Lines Captured (includes resale)	2,116,104	3,205,879	51%
Interconnection Trunks	487,905	615,204	26%
UNE Loop/Port Combinations	394,436	1,257,779	218%
E911 Listings	375,225	598,831	60%

25. Similar growth in competition also has also been experienced in Kansas and Oklahoma. In the short time since SBC obtained 271 approval, the total number of facilities-based lines served by CLECs in those two states has increased more than 23%. Likewise, other growth indicators, such as interconnection trunks and the volume of UNE loops, continue to grow, as indicated in Table 6 & 7 below.

Table 6
Growth in Competitive Indicators for Kansas since SBC Long Distance Introduction

Growth in Competitive Indicators for Kansas			
Competition Indicators	**Feb-2001**	**Aug-2001**	**% Growth**
Lines Served by Facilities-Based CLECs	151,662	187,167	23%
Total Lines Served (includes resale)	233,100	262,920	13%
Interconnection Trunks	37,784	47,674	26%
UNE Loop/Port Combinations	47,684	56,063	18%
E911 Listings	26,783	29,790	11%

Table 7
Growth in Competitive Indicators for Oklahoma since SBC Long Distance Introduction

Growth in Competitive Indicators for Oklahoma			
Competition Indicators	**Feb-2001**	**Aug-2001**	**% Growth**
Lines Served by Facilities-Based CLECs	142,536	176,258	23%
Total Lines Served (includes resale)	193,717	223,997	16%
Interconnection Trunks	45,404	54,106	19%
UNE Loop/Port Combinations	17,566	27,466	56%
E911 Listings	70,931	96,193	36%

CONCLUSION

26. As set out in SWBT's original and this rebuttal affidavit, it is clear that CLECs are providing service either exclusively or predominately over their own facilities to both business and residential subscribers in both Missouri and Arkansas.

27. This concludes my affidavit.

I state under penalty of perjury that the foregoing is true and correct.
Executed on October 4, 2001.

J. Gary Smith

David R. Tebeau

STATE OF TEXAS)
COUNTY OF DALLAS)

Subscribed and sworn to before me on this 1st day of October 2001.

Rosemary H. Black
Notary Public